Rolling Forecast Implementation: 7 Factors for Success

By Larysa Melnychuk
Managing Director
London FP&A Club Ltd.

www.fpna-club.com
larysa@fpna-club.com
Goals

• Definitions
• Qualities of Good Rolling Forecast
• Seven Factors for successful implementation
• Best Practices
• Why sometimes it does not work?
• Rolling Forecast and Beyond Budgeting
• Conclusions
• Q &A
Definitions

**Target**
- Where we would like to be?

**Plan**
- How we get there?

**Forecast**
- What the future most likely look like with current assumptions?

**Budget**
- Allocation of funds and resources
Example of 5-Quarter Rolling Forecast

<table>
<thead>
<tr>
<th>Year X</th>
<th>Year X + 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>Q1</td>
</tr>
<tr>
<td>Q2</td>
<td>Q2</td>
</tr>
<tr>
<td>Q3</td>
<td>Q3</td>
</tr>
<tr>
<td>Q4</td>
<td>Q4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1st review</th>
<th>2nd review</th>
<th>3rd review</th>
<th>4th review</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**KEY:**
- Green = Actuals
- Blue = Forecast
Example of Traditional Forecast

<table>
<thead>
<tr>
<th>Year X</th>
<th>Year X + 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>Q1</td>
</tr>
<tr>
<td>Q2</td>
<td>Q2</td>
</tr>
<tr>
<td>Q3</td>
<td>Q3</td>
</tr>
<tr>
<td>Q4</td>
<td>Q4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1st review</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2nd review</td>
<td></td>
</tr>
<tr>
<td>3rd review</td>
<td></td>
</tr>
<tr>
<td>4th review</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>KEY:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>= Actuals</td>
<td>= Forecast</td>
</tr>
</tbody>
</table>

AFP® Annual Conference
Traditional Forecast as Driving

By Bjarte Bogsnes of StatoilHydro:

“During the budgeting cycle we shine a strong light into the future.

Then we turn off the high beams and start driving into the next year with low beams only.

As we drive on and the quarters pass the low beams get gradually covered in mud and become weaker and weaker.

Is this a safe way of driving in the dark?”
Benefits of Rolling Forecast

- Better accuracy
- More flexibility
- Quicker decision-making
- Improved corporate vision
Why Companies Use Rolling Forecast?

Per IBM research:

- 12% more forecast accuracy
- 50% less budget preparation time
- 10% more profitability
2013 EPM Channel’s Rolling Forecast Survey

42% Use Rolling Forecast
Half of those implemented it in the past year

88% Still do budget and traditional forecast

20% Attempted and failed
“It turned out to be a lot harder than we thought”
Features of Good Rolling Forecast

By Steve Morlidge and Steve Player

1) Timely
2) Actionable
3) Reliable
4) Aligned
5) Cost-effective
Rolling Forecast Implementation: 7 Factors for Success

1. Culture
2. Systems
3. People
4. Process
5. Design
6. Alignment
7. Participation
Factor N 1: Business Culture

- Support from Top Management
- Acceptance by Key Participants
- Rolling Forecast is not a measurement, but is a management tool
- It should not follow accounting structures
Business Culture

The mistake number one for many companies is to underestimate the degree of cultural change required

Fritz Roemer, Hackett Group
Factor N 2: FP&A Systems

- Based on Advanced Analytics
- Driver-Based
- No “Black Boxes”
- Automatic upload of Actuals
Model: Base Line vs. Projects

Base line + Projects / Initiatives = Total Forecast

Driver-Based Rolling Forecast

Plan them separately from Rolling Forecast
Factor N 3: FP&A People

Analytical

Can build models

Good Communicators

Business Partners

Can See “Big Picture”

We need a new generation of FP&A professionals!
People

By Leonardo da Vinci

“There are three classes of people:
• Those who see
• Those who see when they are shown
• Those who do not see.”
Factor N 4: Rolling Forecast Process

• Quick and flexible
• Allow for collaboration
• Minimise non-value adding activities
• Allow for good communication
Process

Design out Judgemental and “Political” elements:

• Where possible, BAU forecast should be automated through drivers

• Projects, initiatives, changes should be based on clear assumptions

• Ban adjustment to forecast

• Allocate roles and responsibilities
Factor N 5: Design

- Horizon
- Speed
- Frequency
- Details
Rolling Forecast Horizons and Frequencies

• The horizon needed is determined by decision-making lead times

• Frequency of updates is driven by the rate of change in the environment

Examples:

– Airline: rolling 6 quarters, monthly
– Technology: rolling 8 quarters, quarterly
– Pharmaceutical: rolling 10 quarters, quarterly
Horizontal Detail

Q1-Q2-2013 Monthly forecast
Q3-Q4-2013 Quarterly Forecast
Q1-Q4-2014 Semi-annually
Factor N 6: Alignment

- 70% of companies never realise their strategy because:
  - Systems are not applicable for both bottom-up and top-down processes
  - Communication is not good
  - FP&A was not involved in strategy setting process

All of this is changing with emergence of Strategic and Influential FP&A
Factor N 7: Participative Planning

Flexible planning process should be participative

There is a gap between strategy and execution
Between top-down and bottom-up processes

Involving many people in to the planning process can help to overcome this problem

Modern FP&A systems help to effectively manage the participative planning process
Participative Planning: Keeping Balance

A forecasting process should be a collaborative cross-functional endeavour

Morlidge and Player
Best Practices for Implementing Rolling Forecasts:

- Focus on external and internal financial and non-financial drivers
- Move towards on-demand forecasting
- Move from fixed performance to relative improvement
- Move from fixed incentives to relative rewards
Challenges

• Initial set up is labour intensive.
• Resistance to change
• One-off implementation cost: software and support costs
• Training, testing, and parallels running
• Incentives hard to integrate
Budget and Rolling Forecast

• Rolling Forecast and the budget can work together

• Rolling Forecasts will not replace budgets in the future
Budget and Rolling Forecast

3 Requirements for effective Rolling Forecast:

1. Budgeting practice should become more flexible
2. Visibility beyond year end should be improved
3. Culture of target negotiations need to be weakened
Final Quote

Forecasting should be treated as a social process where information is shared, diversity is recognised as a source of strength, and where logic and knowledge, not protection of interest groups, are the criteria for decision-making.

Morlidge and Player
Thank you...